

Message Text

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PAGE 01 COLOMB 00106 120411Z

67

ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FEA-01 IO-11 PA-01 PRS-01 /122 W

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 4019

INFO AMEMBASSY JAKARTA

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMCONSUL BOMBAY

AMCONSUL MADRAS

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E.O. 11652:N/A

TAGS: ENRG, BRTA, IN, CE

SUBJECT: GSL CONTRACTS FOR JOINT VENTURE OFFSHORE OIL
EXPLORATION

REF: 75 COLOMBO 3141

1. SUMMARY: ON JANUARY 2, GSL CEYLON PETROLEUM
CORPORATION (CPC) SIGNED CONTRACT WITH WHOLLY -OWNED SUBSIDIARY,
CALLED CEYOIL, OF PEXAMIN PACIFIC INCORPORATED,
FOR JOINT VENTURE OFFSHORE OIL EXPLORATION ON PRODUCTION
SHARING BASIS, IN PALK BAY AREA NORTHWEST OF SRI LANKA.
CPC HAS ABANDONED PLANS FOR SELF-FIANCED OFFSHORE PROGRAM
AND, THROUGH PEXAMIN, IS ACTIVELY SEEKING PRODUCTION
SHARING JOINT VENTURES WITH OTHER OIL EXPLORATION
FIRMS FOR OTHER OFFSHORE BLOCKS ALL AROUND ISLAND.

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PAGE 02 COLOMB 00106 120411Z

ACTION CONFIRMS REVERSAL OF PREVIOUS EXPLORATION

POLICY WHICH DEPENDED ENTIRELY
ON SOVIET CONTRACTED SURVEY AND DRILLING
SERVICES AND WHICH EXCLUDED CONSIDERATION OF
WESTERN JOINT VENTURE EXPLORATION EFFORT. END SUMMARY.

2. IN ACTION REFLECTING SIGNIFICANT GSL POLICY
SHIFT ON OIL EXPLORATION, CPC ON JANUARY 2,
SIGNED A 20-YEAR, PRODUCTION SHARING OFFSHORE OIL EXPLORATION
CONTRACT WITH CEYOIL, WHOLLY-OWNED PANAMANIAN
SUBSIDIARY OF PEXAMIN PACIFIC INCORPORATED OF HOUSTON,
TEXAS. SAME FIRM CONTRACTED IN
SEPTEMBER 1975 AS EXPLORATION CONSULTANTS OT CPC
(SEE REFTEL). ACCORDING CPC VICE CHAIRMAN AND
PEXAMIN RESIDENT MANAGER, CONTRACT PROVIDES FOR
JOINT VENTURE EXPLORATION AND DRILLING IN WATERS NORTH
AND SOUTH OF MANNAR PENINSULA NORTHWEST OF SRI
LANKA, AREA ALREADY SURVEYED EXTENSIVELY BY SOVIET
TECHNICIANS UNDER SERVICE CONTRACTS. CPC EARLIER
PLAN HAD BEEN TO CONTRACT DRILLING RIGS AND SERVICES
AT GSL EXPENSE UNDER PEXAMIN GUIDANCE. NEW CONTRACT
CANCELS THAT PLAN AND SHIFTS GSL POLICY FOR OFF-SHORE
EXPLORATION TO EFFORT BASED ON
WESTERN TECHNOLOGY ON JOINT VENTURE, PROFIT SHARING BASIS.

3. ACCORDING PEXAMIN MANAGER, CONTRACTS TERMS ARE
VERY SIMILAR TO THOSE RECENTLY CUSTOMARY IN INDONESIA. BASIC
PROVISION IS FOR FIRST 35 PERCENT OF OIL TO COVER CEYOIL
EXPLORATION COSTS. OF GROSS PRODUCTION, SRI LANKA
WILL RECEIVE 5 PERCENT LOW PRICED OIL FOR DOMESTIC USE.
REMAINDER WILL BE SPLIT 80 PERCENT CPC, 20 PERCENT CEYOIL.
SRI LANKA PERCENTAGE CANRISE TO 92.5 PERCENT WITH INCREASED
PRODUCTION PLUS OTHER PRODUCTION BONUSES. CEYOIL
IS TO BEGIN DRILLING WITHIN 120 DAYS OF CONTRACT DATE
AND WILL EXPEND ABOUT \$US 12 MILLION FIRST TWO YEARS.

4. CPC ALSO INTENDS TO
SOLICIT JOINT VENTURE EXPLORATION FOR ELEVEN OTHER
OFFSHORE BLOCKS. PEXAMIN OFFICIAL SAYS BLOCKS ARE
DISTRIBUTED ALL AROUND ISLAND AND THAT THEY HAVE AL-
READY CONTACTED ABOUT 35 AMERICAN AND OTHER OIL EX-
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PAGE 03 COLOMB 00106 120411Z

PLORATION FIRMS. CPC CHAIRMAN AND VICE CHAIRMAN PLAN TO
VISIT PEXAMIN, HOUSTON AND OTHER US CENTERS IN EARLY
FEBRUARY TO DISCUSS PRODUCTS. AS REFLECTION OF GSL'S
DESIRE TO ACCELERATE OFFSHORE EXPLORATION, GSL WILL
OFFER FIRMS BONUS FOR BEGINNING DRILLING PROGRAMS
BEFORE END 1976.

5. MEANWHILE ONSHORE PROGRAM REMAINS IN SOVIET HANDS.

ACCORDING TO PRESS AND OTHER REPORTS, TECHNOEXPORT
PLANS THIRD HOLE AT PESALAI ON MANNAR PENINSULA
AND REPORTEDLY ANOTHER ON DELFT ISLAND NEAR JAFFNA.
CPC (BUT NOT RUSSIANS) HAS BEEN PUBLICLY AND HEAVILY
CRITICIZED FOR CLAIMING OIL DISCOVERY, IN FIRST
TWO PESALAI HOLES. PEXAMIN HAS INFORMED US THEY WERE
ENCOURAGING BUT DRY.

6. COMMENT: IN 1974, PRESENT INDUSTRIES MINISTER
SUBASINGHE STATED PUBLICLY THAT IT WOULD BE "ACT OF SHAME FOR
US TO GIVE EXPLORATION RESEARCH TO IMPERIALIST OIL
COMPANY" AND HE "WOULD NEVER ALLOW SUCH THING TO HAPPEN
WHILE HE WAS MINISTER." SINCE THEN GSL HAS CLEARLY
FACED REALITIES OF RISKS AND COST OF MODERN OIL
EXPLORATION (ESPECIALLY OFFSHORE) AND HAS MADE PRAGMATIC POLICY
CHANGE.
ASSUMING EXPLORATION COMPANIES JUDGE CEYLONese OFFSHORE PROSPECTS
AS WORTHWHILE, SRI LANKA COULD SEE SUBSTANTIAL,
LARGELY AMERICAN, OFFSHORE EXPLORATION ACTIVITY IN
COMING MONTHS.
VAN HOLLEN

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